

**DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND**

**BRAZIL**

**SUSTAINABLE TOURISM CERTIFICATION SYSTEM**

**(TC-02-03-00-1)**

**DONORS MEMORANDUM**

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## **LIST OF ANNEXES**

ANNEX I      Logical Framework

## **ABBREVIATIONS**

ABIH	Brazilian Hotel Association
ABNT	Brazilian Association for Technical Norms
CBTS	Brazilian Council for Sustainable Tourism
CST	Costa Rican Certification for Sustainable Tourism
EMBRATUR	Brazilian Tourism Institute
EU	Executing Unit
HI	Hospitality Institute
IDB	Inter-American Development Bank
INMETRO	Brazilian Institute for Standardization, Metrology and Quality
ISO	International Organization for Standards
MIF	Multilateral Investment Fund
NEAP	Australian Nature and Ecotourism Accreditation Project
SEBRAE	Brazilian Agency for Small Business Administration
SME	Small and Medium Enterprise
WEFA	Wharton Econometric Forecasting Associates
WTO	World Tourism Organization
WTTC	World Travel and Tourism Council

## SUSTAINABLE TOURISM CERTIFICATION SYSTEM

(TC 02-03-00-1)

### EXECUTIVE SUMMARY

**Beneficiary:** Hospitality Institute (HI).

**Final**

**Beneficiaries:** By the end of the project the beneficiaries include: 600 small and medium enterprises (SMEs) in the tourism sector that have adopted the Project's standards leading to certification (400 SMEs utilizing demand subsidies and 200 without), approximately 400 trained professionals capable of providing technical assistance to SMEs interested in adopting the standards and conducting third-party evaluations leading to certification. After project completion, more than 5,000 tourism SMEs are expected to adopt the standards and pursue certification by 2010. The Project will indirectly benefit other productive sectors (related and not related to tourism) by encouraging goods and services start-ups in the areas of environmental, social, and economic sustainability.

**Amount and source:**

Method: non-reimbursable – Human Resources Development Facility

MIF (Facility II)	US\$ 1,675,000
Local counterpart funding:	<u>US\$ 1,675,000</u>
Total:	US\$ 3,350,000

**Execution**

**Schedule:**

Execution:	36 months
Disbursement:	42 months

**Objectives and description:**

The goal of this Project is to improve the quality and competitiveness of small and medium size (SMEs) tourism enterprises in Brazil. The purpose is to stimulate SMEs to improve their practices and performance related to operational, environmental, cultural and social factors, through the adoption of internationally recognized standards and attainment of certifications.

**Special contractual conditions:**

Prior to first disbursement, in addition to the Bank's standard contractual conditions, HI will have to demonstrate that the unit responsible for the execution of the Project has been formally established (see paragraph 4.4).

**Environmental  
and Social  
Impact:**

The Committee on Environment and Social Impact reviewed this document on April 5th, 2002. The standards of requiring codes of conduct for in-bound SMEs tourism operators that operate in both indigenous and Afro-Brazilian communities and the need for training SMEs in ecosystem management in addition to environmental legislation were discussed with HI and other relevant stakeholders during project preparation. These standards will be duly incorporated during the customization/adaptation process of the standards and certification system for SMEs tourism enterprises in Brazil.

## **I. COUNTRY AND PROJECT ELIGIBILITY**

- 1.1 The MIF's Donors Committee declared Brazil eligible for all forms of MIF financing on February 9, 1995. The proposed Project meets the eligibility criteria for a grant under the Human Resources Development Facility. This facility encourages local initiatives led by the private sector, with particular emphasis on leveraging financing, to enhance current training programs tailored to small firm needs to improve industry competitiveness. Special attention is placed on programs that incorporate learning into the workplace and promote the adoption of international standards.
- 1.2 This Project has been identified and developed in line with MIF's environmental strategy that seeks to provide critical resources and intellectual leadership to promote synergy between the private sector and the environment. Within this context, grants that assist firms to become more eco-efficient or simply better innovators and entrepreneurs are supported.

## **II. BACKGROUND**

### **A. Sustainable tourism development: its concept and potential**

- 2.1 The 1992 United Nations Conference on Environment and Development, the so-called Earth Summit held in Rio de Janeiro, provided an important impetus for a variety of efforts to green industries through voluntary compliance, governmental regulation and international treaty. In its aftermath, global environmental awareness has increased rapidly, thus propelling the tourism and travel industry to move towards the adoption and implementation of ecologically and socially sustainable development principles and practices.
- 2.2 According to the World Tourism Organization, sustainable tourism leads to management of all resources in such a way that economic, social and aesthetic needs can be fulfilled while maintaining cultural integrity, essential ecological processes, biological diversity, and life support systems on a permanent basis. The sphere of activities encompassed by sustainable tourism have evolved in recent years from the restrictive approach of ecotourism, focused exclusively on the visitation of relatively undisturbed pristine natural environments, to a more expansive approach embracing a wider diversity of activities and less pristine environments which may also be suitable for tourism.

### **B. Sustainable tourism development in Brazil**

- 2.3 Consistent with the Brazilian Government's priorities and policies, significant tourism development activity is underway in Brazil. Public and private capital investment in Brazil's Travel and Tourism Sector is expected to increase from US\$8.1 billion in 2000 to US\$18.5 billion by 2010<sup>1</sup>. These investments range from infrastructure improvements, biodiversity conservation efforts, capacity building through education and training, public

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<sup>1</sup> Source: World Travel and Tourism Council (WTTC) and Wharton Econometric Forecasting Associates (WEFA), 2000.

awareness campaigns to the development of hotels, resorts, theme parks, and nature-oriented attractions. It is forecasted that over the next 10 years, 1.2 million new jobs will be created in Brazil as the impact of Travel and Tourism flows through the economy. By 2010, the Travel and Tourism Economy is expected to contribute 8.1% of GDP and account for 15.7% of Brazil's exports, including services and merchandise.<sup>2</sup>

- 2.4 The resource/attraction base for tourism development in Brazil is vast and diverse, falling within a wide range of different ecosystems, supplemented by cultural attractions including unique indigenous populations. Moreover, the country possesses a vast network of national and state parks among other protected areas. Given the fact that Brazil is the largest mega-biodiverse country, sustainable tourism represents an important opportunity to foster conservation and sustainable development in regions throughout Brazil, including environmentally important regions such as the Amazon, Pantanal, the Atlantic Forest and the Cerrado, helping to create thousands of jobs, generate income, encourage entrepreneurship, and strengthening local economies, while preserving nature.
- 2.5 There is a need for strong articulation between all public, private and third sector interest groups to achieve coherence in the definition of roles and responsibilities of all stakeholders involved with sustainable tourism development. An important step in achieving this end occurred with the recent formation (June 28, 2002) of the Brazilian Sustainable Tourism Council (CBTS).<sup>3</sup> The major objective of the CBTS is to ensure that the growing tourism industry develops in a sustainable manner by implementing broad, participative, and agreed-upon programs for minimizing the negative aspects of tourism while increasing the tourism sector's positive contributions to biodiversity conservation, sustainable development of local communities and cultural enhancement. In addition, CBTS is establishing a process for reviewing and providing endorsement of certifications related to sustainable tourism.

### C. **Challenges facing tourism SMEs**

- 2.6 Many tourism SMEs in Brazil suffer from a number of setbacks including: (i) poor reputation for quality and consistency due to inability, on their own, to incorporate process and performance-based improvement systems; (ii) gaps in the human capacity needed to deliver globally competitive products and services; (iii) a lack of sound environmental management systems which in turn disparage not only individual SMEs but the entire country's image as a destination; (iv) lack of business management systems needed to ensure financial sustainability and secure long-term investment capital; and (v) lack of recognition among consumers in the marketplace due to inadequate spending on marketing and promotion because of the inexperience and small size of these businesses.

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<sup>2</sup> idem.

<sup>3</sup> The tri-partite CBTS includes a broad-based coalition of social, economic and environmental stakeholders from the tourism sector. Government representatives are included in the Council as observers. The Hospitality Institute (HI), the Project proposer, serves on the Executive Committee of the CBTS.



- 2.7 Statistical information on the Brazilian tourism sector that is available from public sources, in general, is not reliable and difficult to obtain, especially for tourism SMEs. However, there are some figures that provide a glimpse of the magnitude and potential that this particular market segment has within the overall context of Brazil's tourism sector. According to the Brazilian Tourism Institute (EMBRATUR) and the Brazilian Hotel Association (ABIH), there are approximately 20,000 tourism SMEs—small hotels, tour operators, and service providers (transportation, food and beverage facilities)—in Brazil that employ over 500,000 people.
- 2.8 In 2001, the HI conducted a survey of 2,042 tourism enterprises in 15 Brazilian states. From this information, the HI, in 2002, contacted a sample of 394 accommodations distributed in five geographical regions which were selected to assess the existing and potential demand for sustainable tourism certification. The results indicated that 92% are interested in implementing both best practices for environmental management and rational use of natural resources; 91% assigned importance in obtaining a marketable label that will allow consumers to recognize their environmental best practices and differentiation of product; and 84% were interested in participating in the piloting of the system. These facts are significant and indicate the high potential demand for implementation of management systems for sustainable tourism. This preliminary baseline information on the suppliers of accommodation facilities has been used for structuring the design of the proposed Project.<sup>4</sup> During the initial stages of Project implementation, the baseline will be expanded to cover services, which include in-bound tour operators and transportation providers associated with the accommodation facilities that were surveyed (see paragraph 2.12).

**D. Standards and third-party certifications provide a solution**

- 2.9 Standards and third-party certification for sustainable tourism development are among the hottest topics within the travel and tourism industry worldwide but the development of such systems is still in the early stages. Ever since the publication of the International Organization for Standardization (ISO) standards for the industry,<sup>5</sup> there has been an explosion of certification initiatives world wide, including tourism codes of conduct, labels, awards, benchmarking and best practices.
- 2.10 The purpose of a system of standards and certification is to delineate criteria that establish minimum standards and best practices within the industry; fosters responsible environmental, social and cultural behavior; and provides travelers with meaningful and reliable information about individual products that are being offered. A system of standards and certifications awards a marketable logo or seal to those businesses that

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<sup>4</sup> Accommodation facilities are targeted by the mere fact that most tourist spending is on accommodation and because it is relatively easy to measure their environmental performance.

<sup>5</sup> ISO 14000 and ISO 14001. The first one is a series of standards that covers a range of environmental disciplines, including the environmental management systems (EMS), auditing, environmental performance evaluation, labeling, life-cycle assessment, and environmental aspects in product standards. The latter governs certification requiring conformance with a series of elements of an EMS that include an organization's environmental policy, planning, implementation and operations, checking for corrective action and management review.

meet or exceed the baseline standards, thereby creating an instrument of consumer choice. To be most effective, sustainable tourism certification systems need to be integrated with public policy mechanisms such as environmental regulations and standards, supported by guidelines and manuals for best practice, and by benchmarking and public reporting schemes for all aspects of environmental performance, including management, technologies, interpretation, and contributions to conservation of natural areas and biodiversity and nurturing community involvement. Moreover, to be useful and reliable, they need effective assessment and third-party audit procedures and penalties for non-compliance, as well as clearly defined admission or accreditation criteria.

- 2.11 Although there are significant cost advantages in implementing existing internationally recognized systems of standards and certifications, customization (with extensive input from businesses, operators, host communities and customers) is imperative if the system is to meet the specific needs and constraints of Brazil's emerging tourism sector. As such, the standards and certification system will need to be validated and vetted by a broad range of stakeholders who are involved in the tourism sector before the system will have credibility and the system stakeholders will develop the sense of ownership which is crucial to long-term success.
- 2.12 No system has yet been identified for Brazil and the HI is proposing to facilitate the selection and then customization/adaptation of a standards and certification system. The HI is uniquely qualified among Brazilian NGOs to undertake this task, and to eventually become a certifying agency. In addition to serving on the Executive Committee of CBTS, HI has been designated as the Executive Secretariat of the Brazilian Committee for Standardization of the Tourism Sector by the Brazilian Association of Technical Standards (ABNT), and as Executive Secretariat of Mercosur's Sector Committee for Standardization of Tourism by the Mercosur Standardization Association.
- 2.13 The Project's standards and certification system is to be tested throughout the country with a special emphasis in regions where Bank financed projects have a considerable presence: PROECOTUR (Amazon Rain Forest), PANTANAL (Wetlands), PRODETUR/NE-II (Atlantic Rain Forest and coastline), and the upcoming PRODETUR-SUL (Atlantic Rain Forest, coastline, mountainous forest and wetlands). The targeting of the SMEs that operate in these regions is a high priority. The standards and certifications developed by the Project will provide a metric for evaluating the effectiveness of investments in tourism development at both the micro (individual SMEs) and macro (aggregated SMEs) level. Accordingly, the Project's activities are to be closely coordinated with these projects during implementation.
- 2.14 The Bank's participation in the sustainable development of Brazil's tourism sector has been increasing during the last six years, with special emphasis on the protection of the environment on which the sector so heavily depends. The voluntary approach of the proposed Project complements these investments by providing customized technical assistance directly to small and medium-sized tourism enterprises. The standards and certifications system is designed to help entrepreneurs identify critical issues, become more effective in offering environmentally friendly products and services to consumers,

and speed up the implementation of process and performance-based improvement systems. The Project's third-party, quality assurance process complements destination marketing initiatives by addressing the need for ongoing monitoring and public reporting.

- 2.15 The proposed Project is consistent with the Bank's country strategy in that it supports a segment of the tourism market in ecologically fragile areas. Moreover, the Project is aimed at establishing a system of quality standards and certifications to encourage and reward tourism businesses that meet social and environmental standards and that comply with established national and local regulations. The Project should significantly contribute to increase business opportunities, as well as public awareness about the importance of maintaining a healthy physical and cultural environment which, in turn, will increase the competitiveness of tourism destinations, the latter being a specific priority of the Brazilian government.
- 2.16 The proposed project is also consistent with the priorities of the MIF. The Project is innovative in that it will promote the internalization of ecologically and socially sustainable development principles and practices by SMEs as an important strategy for their own long-term success while at the same time increasing the tourism sector's positive contributions to biodiversity conservation, sustainable development of local communities and cultural enhancement. The Project also qualifies as a demonstration model, since it will be disseminated by a seminar/workshop to other states and/or municipalities in the country that are interested in modernizing service delivery and boosting the involvement of private enterprises, as described above. Finally, the Project's business plan demonstrates that there will be a positive cash flow by mid-point in project execution thereby ensuring operational sustainability (see paragraph 5.2).

### **III. PROJECT OBJECTIVES AND BASIC COMPONENTS**

- 3.1 The goal of this Project is to improve the quality and competitiveness of small and medium size (SMEs) tourism enterprises in Brazil. The purpose of the Project is to stimulate SMEs to improve their practices and performance related to operational, environmental, cultural and social factors, through the adoption of internationally recognized standards and attainment of certifications.<sup>6</sup>
- A. Component I: Adoption of Standards and Certification System (US\$700,000: MIF-US\$355,000 / LOCAL-US\$345,000)**
- 3.2 Adjustment and adoption of standards related to operational, environmental, cultural and social factors and targeted at increasing the quality and competitiveness of tourism SMEs: The services of an international consultant will be retained by the Executing Unit (EU) to carry out an analysis on at least two existing sustainable tourism certification programs that can be subsequently customized and adjusted to the Brazilian tourism sector's needs.<sup>7</sup> The comparative analysis of the selected certification programs is to be

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<sup>6</sup> The size of the SMEs is based on the number of employees: micro (<20); small (>20<50); and medium (>50<100). Annual company revenues can be no greater than US\$5 million.

<sup>7</sup> Some examples of the programs to be analyzed include, among others, Green Tourism Business Scheme (Scotland); Nature and Ecotourism Accreditation Project (NEAP-Australia), Ecotel initiative; Green Key

based on the following: program objective, background, business areas covered, types of standards, review process, certification process, marketing strategy, brand recognition (logo), cost structure, prices, administrative management, length of market presence, number of participants, number of certified businesses, and flexibility offered and possibility for Brazilian customization.

- 3.3 A final document containing the analysis and a specific proposal regarding the system or combination of systems better adapted to be implemented in Brazil is to be prepared and submitted by the Project Steering Committee to the Brazilian Sustainable Tourism Council (CBTS) and other relevant entities such as the Brazilian Association for Technical Norms (ABNT) and the Brazilian Institute of Standardization, Metrology and Quality (INMETRO) for endorsement. The research documents and the final decision is to be made available to the general public through posting on the Project's website.
- 3.4 The selected standards and certification program are to be adapted to the Brazilian reality to meet the needs of tourism SMEs and reflect current legislation and the country's social, cultural, and environmental factors and conditions. This activity involves a detailed analysis in the following strategic areas: product design, product delivery, presale and post-sale services, marketing, cost structure, relations with clients, relations with suppliers, environmental and social management, legal framework, ecosystems where they operate, and any other areas deemed important. With the assistance of the EU, the Project Steering Committee is to oversee the analysis, the adaptation of the standards, and the preparation of a proposal to be presented to the CBTS and any other relevant entities such as ABNT and the INMETRO whose endorsements are needed to ensure the credibility of the standards and certification system.
- 3.5 Adjustment and adoption of an audit process for the standards that can be linked to or articulated with an internationally recognized, third-party certification: Once the standards are endorsed by the CBTS, the EU, working in conjunction with the Project's Steering Committee, will adjust or redesign the evaluation procedures for each standard based on the selected program's existing procedures. The adjustment will also take into consideration the current needs of tourism SMEs and will reflect the legal framework in force and the companies' environmental and social milieu. The evaluation and measurement procedures will be based on the following criteria: effectiveness, low cost, ease of comprehension, safety and, most importantly, replicability. The proposal will include all the necessary elements to explain the individual methods, procedures for verification of compliance, and procedures to gather, disclose, and manage review data. As a whole, this material will be the basis for the preparation of standards review guides and manuals. The audit process developed by the Project Steering Committee is to be submitted to the CBTS and any other relevant entities such as ABNT and INMETRO for endorsement.
- 3.6 Development and implementation of a marketing plan/outreach program to educate tourism SMEs about opportunities to increase net operating results through improved practices and performance related to operational, environmental, cultural and social factors: The purpose of this activity is to stimulate wide spread national implementation

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(Denmark); Green Globe 21; and Certification for Tourism Sustainability (CST-Costa Rica). Special emphasis is to be given to the Costa Rican system due to its more holistic approach to sustainability.

of standards and certifications (on an ongoing and long-term basis) by immediately beginning the marketing of the Project through a series of informational programs and publications. A marketing firm is to be engaged to prepare and execute a plan devised to generate brand recognition of the standards and certification system and position it in the marketplace. The marketing plan is to include short- and medium-term strategies and rely on specific and quantifiable goals and objectives that are measured by performance indicators. The strategy and basic objective is for the certification to be recognized in the tourism market as being indicative of an enterprise with successful environmental and business management, thereby differentiating it from companies that have not received certification. As this is a very costly activity with long-term results, special attention is to be given to the actual and potential recognition prospects of the brand selected during the analysis of existing standards and certification processes. Several marketing/outreach activities including presentations at national industry trade shows and conventions, panel discussions at regional workshops, and presentations at local industry trade and professional association meetings are to be developed.

- 3.7 The consultants who are trained and certified by the Project are expected to stimulate local tourism SMEs across Brazil to implement the standards and pursue certification (see paragraph 3.10). The participation of numerous institutions with interests in the tourism sector in supporting the Project is to be encouraged so they may help in the process of making it widely known and accepted. Public relation contacts are to be made with the press and other media. The installed capacity of companies, organizations, NGOs, the government, and other agencies are to be used for this purpose. Fifty percent of all tourism SMEs (10,000 of 20,000 total) are to be contacted and receive information and five percent of all tourism SMEs (1,000 of 20,000 total) are projected to participate in workshops or receive training in the implementation of the standards by the end of the Project. The Project budget provides marketing dollars for years one and two. The Project is to begin financing marketing activities in year three from Project revenues as indicated in the financial sustainability plan.

**B. Component II: Training to implement the System (US\$400,000: MIF-US\$250,000 / LOCAL-US\$150,000)**

- 3.8 Development of manuals, implementation guidelines, and training programs for SMEs, consultants and auditors: Based on the system of standards and audit processes generated by Component I, the EU is to develop a series of guides and manuals for use by SMEs in interpreting the standards, conducting gap analysis, and implementing process/performance improvements leading to certification. The guides, manuals and training programs are also expected to serve as training materials leading to the certification of consultants and auditors as described in paragraph 3.9. Detailed information on this activity is included in the Project's Operational Manual.
- 3.9 Development of a certification program for consultants and auditors: A formal process for certifying consultants and auditors, to be operated by the Hospitality Institute on a cost-recovery basis, is to be developed and implemented as a means of assuring quality and consistency and providing a national registry of certified consultants and auditors. This is to be accomplished by capitalizing on the infrastructure that is already in place and the experience gained by the Hospitality Institute during the Professional Quality

Certification Project funded by MIF and the Brazilian Agency for Small Business Administration (SEBRAE) from 1998-2001. With the assistance of extensive stakeholder input, a series of requirements, tests, and conditions that a person must meet, prove, and document to be formally certified as an authorized consultant or auditor are to be developed. Applications for consultants and auditors are to be open and unrestricted to anyone willing to apply and submit evidence of compliance with the standards and other pertinent requirements that are established. Potential consultants and auditors are projected to have prior experience and training in business management, ecology, environmental engineering, tourism, auditing techniques, measurement verification, and high proficiency in review methods related to the Project's technical areas. Emphasis is also to be placed on knowledge of best practices and experience in knowledge transfer and analysis of business strategies.

- 3.10 Delivery of training to consultants and auditors: The EU will be responsible for setting up the system that will deliver a minimum of 10 training courses designed to prepare an initial group of 400 people (all of whom meet the criteria for pre-qualification established by the Project) to earn certification as consultants or auditors. It is imperative that the geographic distribution of the 400 people selected to receive training in preparation for certification as consultants and auditors is consistent with the geographic distribution of tourism SMEs across Brazil as this initial group of consultants and auditors is expected to stimulate local tourism SMEs across Brazil to implement the standards and pursue certification.

**C. Component III: Technical Assistance for SMEs (US\$1,700,000: MIF – US\$900,000 / LOCAL US\$800,000)**

- 3.11 Technical assistance for SMEs: The basic premise of this component is to stimulate widespread national implementation of sustainable tourism standards and the pursuit of certification (on a long-term basis) through the provision of a demand subsidy for the first 400 SMEs that enroll in the program. In addition to receiving assistance in financing the cost of basic training and preparation for certification, participating SMEs are expected to assist in the validation and honing of the system, resulting in a demonstration effect that increases awareness and understanding of the standards and certification system. Further, the success of this effort in increasing the quality and competitiveness of participating SMEs is expected to motivate other SMEs to enroll in the program after the initial phase without the assistance of a demand subsidy.
- 3.12 An amount of US\$1.6 million has been budgeted for the technical assistance for the SMEs. The Project pays 50% of the total consulting costs (\$4,000 of the average cost for each SME which is \$8,000)<sup>8</sup> required to implement the standards and prepare for an audit while the SME pays the other half. Project funds cannot be used to fund the audit leading to certification. The SMEs are to pay for the audit in addition to the 50% of consulting costs required to implement the standards and prepare for the audit.

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<sup>8</sup> The amount of US\$8,000 is the total cost for implementing environmental managements systems under ISO14000. Source: SEBRAE.

- 3.13 The technical assistance received by tourism SMEs is to be provided only by consultants trained and certified by the Project. The specific technical assistance SMEs are expected to receive includes implementation of the standards, gap analysis, identification of specific strategies and actions needed to implement improvements, training, advice on best practices and benchmarking, and a practice audit against the standards to be carried out after standards have been implemented and improvements have been put in place. Terms and conditions for registration of consultants, implementation of matching grants, eligibility criteria for SMEs participation, and procedures for administration and collection of fees are detailed in the Project's Operational Manual.
- 3.14 To avoid any ethical conflict and maximize the Project's credibility, the audit process established for certification purposes is to operate independently from the technical assistance program. Consultants providing technical assistance to a particular SME are to be prohibited from conducting the audit leading to certification for that SME.

#### IV. BENEFICIARY AND FINAL BENEFICIARIES

- 4.1 **Beneficiary:** The Project is to be executed by the Hospitality Institute (HI), a chartered non-profit organization that is also responsible for counterpart contribution. Created in 1997, and headquartered in Salvador, Bahia, Brazil, HI works to advance national and regional strategies for economic and social development through tourism.
- 4.2 In 1998, the Multilateral Investment Fund and SEBRAE awarded a US\$5 million grant to HI, with the charge to unite Brazil's Hospitality and Tourism sector, increase the supply of well-trained workers to fill jobs and stimulate growth, and enhance the sector's global competitiveness through quality and productivity.<sup>9</sup> The project, which was completed in December 2001, created a successful approach for developing professional standards and certifications for the tourism industry. This Project proposes to build on HI's expertise in tourism training by establishing a recognized system of quality standards, evaluations/audits and certifications for tourism businesses that includes requirements for building the human capacity needed to help these businesses deliver high quality products and services.
- 4.3 **Final beneficiaries.** By the end of the Project the beneficiaries include: 600 small and medium enterprises (SMEs) in the tourism sector that have adopted the Project's standards leading to certification (400 SMEs utilizing demand subsidies and 200 without), and approximately 400 trained professionals capable of providing technical assistance to SMEs interested in adopting the standards and conducting third-party evaluations leading to certification. After Project completion, more than 5,000 tourism SMEs are expected to adopt the standards and pursue certification by 2010. The Project will indirectly benefit other productive sectors (related and not related to tourism) by encouraging goods and services start-ups in the areas of environmental, social, and economic sustainability.
- 4.4 **Institutional and implementation scheme.** The proposed Project is to be executed over a 36-month period, with resources disbursed over a 42-month period. An Executive Unit (EU), to be established prior to first disbursement and within HI's organizational

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<sup>9</sup> Skills Standards/Certification for Tourism (MIF/ATN/MH-6050-BR).

structure, will be responsible for the administrative, programming, management and technical supervision of the Project. The EU will serve as the liaison between the Bank and the HI during execution. The EU is to be fully responsible for the preparation of all project reports including: annual operating work-plans for each individual activity/component; technical and administrative reports; financial reports (budget control; financial statements, reconciliation of the revolving fund and control reports over the counterpart contribution); disbursement requests to be submitted to the Bank; and the Project's operation procedures and management system.

- 4.5 The EU is to be staffed by a Project Director and supported by the Hospitality Institute's technical and administrative staff. The Project Director is responsible for directing and coordinating all the activities to be carried out under each one of the three components. The administration expenses of the EU are fully funded in year one with a phase out beginning in year two and replaced by revenues generated by the standards and certification system, as indicated in the financial sustainability plan.
- 4.6 The Project Director will be supported by a multi-disciplinary team of technical specialists who are to be hired by the EU during the 36-month execution period with the Projects' resources. The team of experts requires specialization in the following areas: sustainable tourism certification; environmental management; business management of tourism enterprises; community-based tourism development; standards and certification; project management; training and education; and communication and dissemination.
- 4.7 As a team, the EU is to be responsible for the basic work of adapting, adjusting and testing the proposed standards and developing the proposed criteria and procedures for auditing SMEs. For the purposes of validating the standards and audit process, consensus and legitimacy is to be obtained through intensive and well-informed consultation with stakeholders that the EU will facilitate.
- 4.8 The Project Steering Committee, which draws members from the CBTS and other relevant stakeholders, is to be formed within HI's organizational structure. This Committee will oversee the implementation of the Project. It will elect a chairman and a vice-chairman.. As indicated in the Project's Operational Manual, it shall have no less than four meetings per year, but may have as many additional sessions as required for project execution. The Hospitality Institute's EU is to act as Secretariat for the Project Steering Committee.
- 4.9 **Monitoring.** The Executing Unit will prepare and submit to the Bank's Country Office (CO) project progress reports within thirty (30) days after the completion of each semester and a final report within 30 days from the final disbursement. These reports will follow a format previously agreed with the CO and will address project activities and finances, as well as results measured in terms of the indicators and benchmarks identified in the project's logical framework. The CO will utilize these reports to monitor project implementation progress and to prepare a Project Completion Report within three months of the last disbursement.
- 4.10 **Accounting.** In accordance with MIF/Bank procedures the EU will establish and maintain adequate accounting, financial, internal control, and filing systems, which will allow the identification of sources and uses of funds of the Project. The accounting



system will be organized to provide necessary documents, permit verification of transactions, and facilitate the timely preparation of financial statements and reports.

- 4.11 **Revolving Fund.** After having completed all the conditions prior to first disbursement, a revolving fund of up to 10% of the grant may be made if the EU so requests. Disbursements of grant funds and the purchase of goods and services will be done in accordance with Bank/MIF procedures.
- 4.12 **Financial Audits.** HI will prepare and submit to the Bank audited financial statements, within ninety (90) days of the end of each fiscal year (as at 31 December) during Project execution. Similarly, 90 days after the final disbursement of the project, final financial statements regarding the Bank's contribution and local counterpart funds. A firm of independent auditors acceptable to the Bank will audit these financial statements. The audit costs will be financed with proceeds from MIF's contribution, in accordance with the Bank's procedures.
- 4.13 **Status of preparation.** The design, budget and activities planned under the Project have been prepared with the assistance of the Bank's team. The local counterpart cash contribution has been confirmed through a letter to the IDB Country Office from HI and the allocation of cash expenditures defined in the detailed Project budget (see technical files) has been arrived at in cooperation with the Beneficiary, the Country Office and the Bank's project team. The logical framework and detailed budget were prepared based on meetings with the Beneficiary.

## V. COST, SOURCE OF FINANCING AND COST RECOVERY

- 5.1 The cost of the program is estimated at US\$3,350,000 of which the equivalent of US\$ 1,675,000 will be provided from the MIF (Human Resources Development Facility ) on a non-reimbursable basis, and the equivalent of US\$1,675,000 will be provided as local counterpart funding in cash, in accordance with the table below.

**TABLE 1**  
**COST AND SOURCE OF FINANCING**  
**(IN US\$)**

BUDGET CATEGORIES	MIF	LOCAL	TOTAL	%
<b>Component I: Adoption of Standards and Certifications</b>	355	345	700	21
<b>Component II: Training to implement the System</b>	250	150	400	12
<b>Component III: Technical Assistance for SMEs</b>	900	800	1700	51
<b>Contingency Funds</b>	100	100	200	6
<b>Project Execution and Administration</b>		280	280	8
<b>Evaluations</b>	50	--	50	1
<b>Audit</b>	20	--	20	1
<b>TOTAL</b>	167.5	167.5	3350	100
<b>Percentage</b>	<b>50%</b>	<b>50%</b>	<b>100%</b>	

- 5.2 **Sustainability.** The sustainability of the certification system is based on a pre-feasibility projection study, whereby in the year 2006, income will be generated by: (i) fees paid by SMEs for initial enrollment in the certification system; and (ii) fees paid by SMEs when the certification audit is conducted. A US\$200 initial enrollment fee has been calculated and, for the latter fees, US\$950, US\$1,450, and US\$1,950 has been estimated, respectively, according to the size of the company (number of employees): micro (<20); small (>20<50) and medium (>50<100).
- 5.3 The certification of consultants and auditors will also contribute to the sustainability of the Project by creating a cadre of trained professionals to stimulate SMEs across Brazil to participate in the standards and certification process. While the design and delivery of the training programs for consultants and auditors will be offered at competitive market rates, fee revenues to be collected have been projected on a cost-recovery basis. The EU expects to continue to offer new training program for consultants and auditors beyond the Project's execution period and therefore will introduce operational sustainability by charging fees for these training products. Greater information on the enrollment fees to be paid by SMEs and consultants are detailed in the Project's Operational Manual.
- 5.4 A financial projection was prepared to demonstrate that, with an annual growth of approximately 25% per year commencing with the targeted 400 businesses and the fees previously mentioned, the proposed certification system expects to generate positive cash flows starting in 2004. From 2006 forward, the system is projected to cover all costs related to the certification assessments and auditing services, administration expenses, advertising and promotion costs of the logo and of the companies that are certified, as well as surpluses to be reinvested in the system. By the end of 2010, over 5,000 SMEs or 25% of the total of 20,000 tourism SMEs are expected to implement the standards and certification system.

## VI. BENEFITS AND RISKS

### A. Benefits

- 6.1 The attainment of certification will allow tourism SMEs to both improve and differentiate their products and services in the market, translating into better conditions for their competitiveness and long-term success. The standards will integrate tourism and business management, thus providing better opportunities for success of investments and generating social and environmental advantages in the tourism area where the company operates. Improvements in business management of tourism SMEs will result from the implementation of standards and best practices, in turn enhancing efficiency, competitiveness, the quality of the product being offered and, ultimately, income. Natural resources preservation will increase and pollution and other negative environmental externalities will decrease as a direct result of improved environmental management.
- 6.2 As the number of SMEs that register and obtain the certification grows, other benefits will accrue: (i) tourist demand will increase as a result of improved tourist products; (ii) SMEs investments in the tourist area and in the supply chain will contribute to improve the design and delivery of products, marketing, and client satisfaction; and (iii) new industries will develop to provide goods and services that will enable SMEs meet the standards, i.e., water treatment products, environmental inventories, biodegradable

products, training of guides, etc., benefiting not only tourism, but other productive sectors as well.

B. Risks

- 6.3 The proposed Project does not generate any situation that may be regarded as a social or environmental risk. The Project's risks are associated with the quality of the design of the standards themselves and with the demand generated by the certification system. As to the design, if the standards and new procedures are not adequately adapted and applied, and if they do not incorporate the technical elements and broad participation of all the necessary stakeholders, the outcome could result in a low credibility of the system with minor appeal to tourism SMEs and potential users (vendors and tourists). This risk will be minimized by the active involvement of all stakeholders.
- 6.4 The initial demand for the system involves a risk due to the lack of credible statistical information that corroborates its existence and because it is almost impossible to carry out a specific demand study for a Project of this nature without first having fully-developed standards and review procedures. The Hospitality Institute has been advised by stakeholders to keep the cost structure affordable for SMEs to facilitate access, maximize participation and ensure financial sustainability and the HI has agreed to pursue this course. To further address this risk, a survey was developed to determine the level of acceptance for a certification system and the companies' willingness to pay or invest. According to the reported results, it is clear that there is sufficient interest for a standards and certification system.
- 6.5 This risk must be overcome so as to secure the participation of 400 companies in the Project. Once this is accomplished, promotion and demand generation activities will play a pivotal role to mitigate it. HI will be closely working with the 400 initial targeted companies, ensuring that they are renowned companies with an established presence in the tourism segment, as this will contribute to boost demand.

## VII. PERFORMANCE INDICATORS AND EVALUATION

- 7.1 **Evaluation.** The Bank will utilize the budgeted amount of US\$50,000 to contract individual consultants to carry out two evaluations of the project. A mid-term evaluation will be performed when 50% of the resources have been disbursed or 19 months after the first disbursement, whichever comes first. A final evaluation will be conducted within three months after the project is completed. Based on the mid-term evaluation, the Country Office, together with the project team if needed, will carry out annual performance evaluations to determine whether the project should be continued, suspended, or cancelled.
- 7.2 During the Project's execution, benchmarking criteria and indicators to grade SMEs sustainability performance will be developed by the first 400 SMEs with the assistance of the Executing Unit. The benchmarking indicators will be part of the certification application and verification of these measures will occur during the on-site auditing process. These indicators will be reviewed by the Country Office and the Project Team

during the mid-term evaluation. The indicators that are set forth in the Logical Framework (see Annex I) will also be used by the Bank Country Office and the Beneficiary to gauge the overall impact and assess results. One of the key performance indicators to be taken into consideration during evaluation is the percent of SMEs participating in the Project that improve their net operating results.

#### **VIII. EXCEPTIONS TO POLICIES AND PROCEDURES**

- 8.1 No exceptions to Bank policies are involved.

#### **IX. SPECIAL CONTRACTUAL CONDITIONS**

- 9.1 Prior to first disbursement, in addition to the Bank's standard contractual conditions, the Hospitality Institute will have appointed the Project Executing Unit (see paragraph 4.4).

## Logical Framework Sustainable Tourism Certification System

	Indicators	Verification	Assumptions
<p><b>Goal</b></p> <p>Improve quality and competitiveness of SMEs in Brazil's tourism sector.</p>	<p>By the end of the Project, 400 SMEs receiving demand subsidies have implemented the standards in preparation for an audit leading to certification. 75% or 300 of the 400 SMEs have documented higher levels of satisfaction from clients and increased net operating results.</p>	<p>Verification of gains achieved by SMEs including results of operational audits, customer satisfaction surveys and financial statements.</p>	<p>There is a demand for implementation of standards designed to improve productive and processes and services of SMEs.</p>
<p><b>Purpose</b></p> <p>Stimulate SMEs to improve their practices and performance related to operational, environmental, cultural and social factors, through the adoption of internationally recognized standards and attainment of certification.</p>	<p>By the end of the Project:</p> <p>(i) 600 tourism SMEs (400 utilizing demand subsidies provided by the Project and 200 without) are enrolled in the system; and (ii) projections for enrollment in the system by more than 5,000 tourism SMEs (20% of the total of 20,000 tourism SMEs in Brazil) by the end of 2010 are substantiated by research.</p>	<p>Review of SME enrollment records, and research publications.</p>	<p>SMEs recognize the need to improve both internal processes and external performance in order to offer higher quality products;</p> <p>There is access to human and financial resources needed by SMEs to implement improvement processes.</p>

Components	Indicator	Verification	Assumptions
<b><i>C1. Adoption of Standards and Certification System</i></b>			
Adoption of standards and development of a third-party certification system	By the end of the Project: (i) 50% of all tourism SMEs (10,000 of 20,000 total) have been contacted or have received information about the program; (ii) 5% (1,000 of 20,000 total) of all tourism SMEs have participated in workshops or have received training in implementation of the standards; and (iii) 600 SMEs (400 utilizing demand subsidies provided by the project and 200 SMEs without demand subsidies) have enrolled in the system.	Documentation on adjustment of and preparation of the standards related to operational, environmental, cultural and social factors and targeted at increasing the quality and competitiveness of SMEs are on file and available on the Project's Web Site;  Adoption process validated by key stakeholders.  Documentation on the evaluation, benchmarking criteria, indicators for measurement and procedures developed for each standard, as well as documentation on marketing plan and implementation of outreach program activities on file.	Agreement on the standards, audit process and certification reached among the key stakeholders. SMEs understand and value the benefits of implementing standards and obtaining certification.
<b><i>C2. Training to implement the System</i></b>			
Development of manuals, implementation guidelines, and training programs for SMEs, and certification program for consultants and auditors.	400 consultants and auditors have been trained and certified by the Project.	Review of guides and manuals produced by the Project;  Review of basic training programs for SMEs and training modules and manuals for the certification of consultants and auditors;  Research conducted with individuals that received training;  Training and certification records.	The EU has the capacity to convert standards content into effective training programs;  Certification criteria and process accepted by key stakeholders;  There is sufficient demand for 400 consultants and auditors.

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<b>C3. Technical Assistance for SMEs</b>			
Provide direct technical assistance to SMEs to implement the standards and prepare for an audit leading to an internationally recognized, third party certification.	400 SMEs across Brazil have received technical assistance subsidized by the Project to implement the standards and prepare for an audit.	Review of project records and interviews with selected SMEs that have received technical assistance.	Technical assistance is accepted among SMEs.